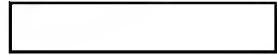


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CVIETNAM: The government is encountering heavy resistance in the campaign to capture the citadel in Quang Tri City.

Communist artillery attacks and ground action slowed a South Vietnamese Marine operation launched yesterday against the citadel, and sharp fighting was reported along the northern edge of Quang Tri City. A few miles southwest of the city, South Vietnamese airborne forces repulsed a strong enemy tank attack with the help of heavy air strikes.

Farther south, Fire Support Base Bastogne was reoccupied without opposition by South Vietnamese regulars. The Communists directed nearly 300 rounds of artillery and mortar fire into government strongpoints west of Hue, in addition to placing several artillery shells within the city itself.

* * * *

The petroleum pipeline system from China into North Vietnam continues to be expanded. The system cannot be confirmed as operational, however, primarily because no pumping stations have been identified along the line. Analysis of photography taken between early June and late July indicates that the system will consist of three single pipelines between the Chinese border and Kep, and a combination of dual and single lines between Kep and Hai Duong, where it will connect to the extensive pipeline network that runs south into South Vietnam and southern Laos. The new system, when completed, should be more than adequate for Hanoi's petroleum import requirements.

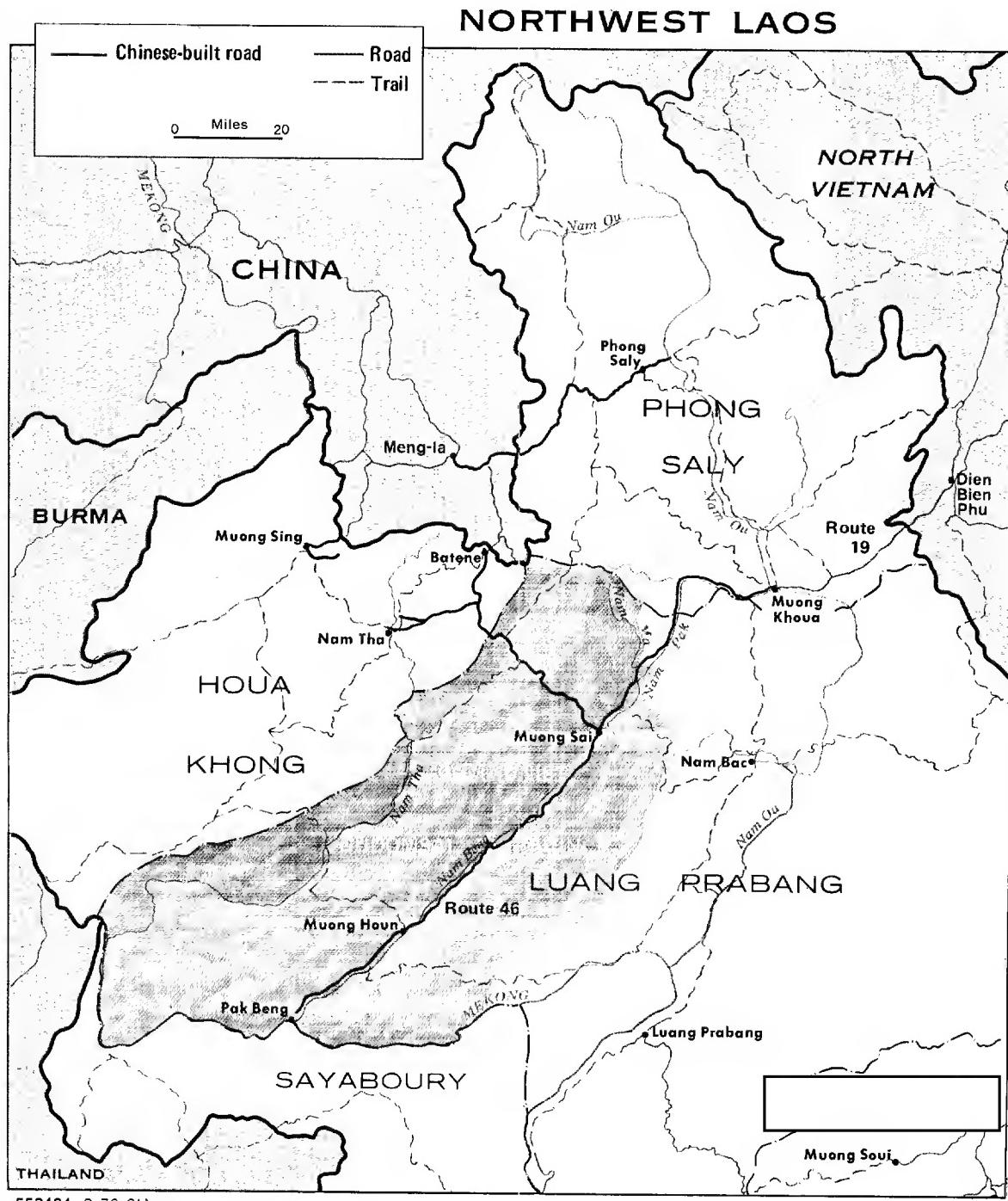
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LAOS-CHINA: The Lao Communists and their North Vietnamese allies evidently continue to govern in northwest Laos despite the presence of Chinese road-building and infantry forces.

Reports from recent defectors indicate that this area is administered in essentially the same manner as other parts of the country that have been under Communist control for some time. Most of the defectors came from western Luang Prabang Province, which the Communists call Oudomsai Province. Oudomsai is administered by a Lao province chief and his subordinates who are in charge of districts and subdistricts or villages. North Vietnamese advisers assist the Lao at the provincial and district levels.

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Lao officials are authorized to act independently in a few matters, but most require the approval of the senior North Vietnamese adviser.

North Vietnamese advisers also assist Pathet Lao battalions and some companies. In addition, small North Vietnamese units sometimes operate with Pathet Lao units against government troops.

The Chinese, in contrast, do not seem to venture far from their roads. They provide no advisers to the Lao Communists in Oudomsai Province, use only their own people for road construction, levy no taxes on the villagers along the road, and do not require the locals to perform portage or other duties. Contact is limited to activities designed to cultivate good relations, as in some areas where Chinese aid stations provide medical attention to the Lao. On occasion, Chinese construction crews use their equipment to help local farmers clear fields.

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The defectors are not able to provide any real insight into the reasons for the Chinese road-building projects. Lao Communist propaganda teams push the line that the projects are part of agreements negotiated in the early 1960s between Vientiane and Peking. The propagandists stress that the Chinese are not a threat, that they have no intention of annexing any territory or staying permanently, and that the Chinese activities are designed to assist the Lao people by preparing transport routes.

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Hanoi is using a portion of these roads to supply their forces in northwest Laos. Their trucks enter Laos from North Vietnam on Route 19 and may proceed as far as Muong Houn on Route 46. [redacted] most supplies are destined for the small number of North Vietnamese troops in western Luang Prabang and Sayaboury provinces. Some are portered into Sayaboury for use by the insurgents in Thailand. This is the clearest evidence to date that the North Vietnamese use the Chinese-built road to supply the Thai Communists. [redacted]

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THAILAND-CHINA: Bangkok is taking a major step toward improving relations with Peking.

General Praphat, deputy chairman of the ruling National Executive Council announced on 2 August that a Thai ping-pong team would be permitted to go to China to participate in matches conducted under the auspices of the Chinese-backed Asian Table Tennis Union. Praphat had said as recently as last month that Bangkok would not send a ping-pong team because the invitation had not come directly from the Chinese.

Praphat may have conceded on this point in order to use the ping-pong visit to discuss substantive matters. The Thai delegation will include Prasit Kanchanawat, a senior economic official who is a close associate of Praphat. The Bangkok press is reporting that Prasit will discuss the possibility of opening commercial relations between the two countries and will meet with Prime Minister Chou En-lai. If true, this too would be a change in the Thai policy of holding off on discussing economic affairs until relations had matured further.

The decision to send Prasit and the ping-pong team to China is a major turning point in the process of redirecting Bangkok's policy toward Peking that was inaugurated by former foreign minister Thanat in 1968. The wavering and even erratic nature of Bangkok's movement toward better relations is in part a result of differences within the leadership as well as the unsystematic way the Thai conduct their affairs. It also reflects the difficulty the Thai have had in reconciling what they perceive to be the increased necessity of establishing contacts with China with their long-standing fears about China's intentions toward Thailand, as well as the impact that contacts will have on the large Chinese community in Thailand. [redacted]

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SOUTH KOREA: President Pak has invoked emergency powers to deal with the current economic slowdown and inflation.

The government will make available some \$500 million in low-interest, long-term loans to local businesses. To offset any adverse balance-of-payments impact, Seoul is likely to increase efforts to obtain foreign aid to finance this measure. Pak also announced that bank interest rates will be lowered, and that liberalized depreciation allowances and tax incentives will be extended to key industries. Pak also stated that he will seek to hold commodity price increases to three percent and stabilize the Korean won which has been slowly de-valued, driving up import prices.

Seoul hopes to stimulate economic growth that has been slowing since mid-1971, largely as a result of tight government credit policies. Monetary tightening at that time aimed at cooling the rapidly growing economy that was being fueled by a rising external debt and a widening trade gap. The restrictions have had a severe impact on Korean firms that have traditionally relied heavily on credit to meet day-to-day expenses. Some businesses have failed while many more have sought relief by using private short-term loans at annual interest rates as high as 60 percent. To cover these high-cost loans, firms have been raising prices sharply, adding to South Korea's inflation. [redacted]

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WEST GERMANY - COMMUNIST CHINA: Bonn may move to normalize relations with Peking before the West German elections in December.

Gerhard Schroeder, shadow foreign minister of the opposition Christian Democrats, claims that during his recent fact-finding mission to Peking the Chinese led him to believe that they were ready to establish diplomatic relations "immediately" after the formality of a "brief" contact with a Chinese embassy in some European capital.

Although Schroeder may be overstating the speed with which China would like to move, his trip to Peking has placed the Brandt government under some pressure. The Christian Democrats have long criticized the narrow focus of Ostpolitik upon the USSR and Eastern Europe, and recent opinion polls show that almost 80 percent of the West Germans approve an immediate establishment of relations with Peking. Brandt previously had wished to defer a bid to Peking because he felt it might antagonize Moscow, particularly until the negotiations on a basic political treaty with East Germany are concluded.

The Schroeder mission, however, probably will force the government's hand on the China issue.
[Redacted]

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CHILE: President Allende has rebuffed Congress by naming impeached Interior Minister Del Canto to another post in the cabinet.

Del Canto is the new minister secretary-general of government, with the incumbent, Jaime Suarez, taking the Interior portfolio. Both are Socialists, and this switch avoids upsetting the political balance of the cabinet. This was important because the divided Socialist Party could not agree on a successor to Del Canto. By exercising this legal right, Allende has demonstrated the ineffectualness of congressional harassment and at the same time bypassed political infighting within the governing coalition.

The continued friction between Congress and the President now has been expanded to include the Supreme Court. Carlos Altamirano, the extremist chief of the Socialist Party, delivered a stinging attack on the court at a rally on 1 August, charging that it is more concerned with protecting property rights than prosecuting white-collar crime. The courts, along with the military, traditionally have been spared from partisan attack; as the Supreme Magistrates have delivered an increased number of conservative decisions on politically sensitive cases, they have moved into the line of fire.

The government may believe these attacks on the legislative and judicial branches will create a favorable atmosphere for introducing the draft of a new constitution, promised for next month. The new charter presumably will reduce the power of Congress and the Supreme Court, institutions which in their present form Allende would like to convince the voter are unnecessary obstacles in the path of social justice. Allende apparently plans to use the draft as a Popular Unity platform for the congressional elections of March 1973, and push for its passage in the legislature then elected.

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A plebiscite would probably be necessary for its adoption. Several of Allende's predecessors also pressed for constitutional revisions, but were always bitterly opposed by the propertied classes.

Allende may feel vulnerable to charges that he has not delivered on previous campaign promises, and apparently intends to fight the 1973 campaign on the "big issues." The current flurry of political activity may well be an attempt to force the opposition on the defensive, as well as to obscure his own political difficulties.

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PHILIPPINES: Political infighting is still going on in Manila's constitutional convention, with anti-Marcos forces bent on delaying tactics.

On 7 July, President Marcos won an important political victory when the convention passed a draft provision calling for a parliamentary government to replace the existing presidential form. Marcos expects to have an easier time remaining in power under the parliamentary system. Anti-Marcos forces tried to scuttle his plans by including an article in the constitution that would ban either Marcos or his wife from holding office, but this failed.

The anti-Marcos delegates have now decided on a new tack. Convention president Macapagal, a former Marcos supporter who defected to the opposition, has decided to use his office to help delay convention proceedings through procedural moves and endless debates. If completion of the new constitution is delayed until late spring 1973, there would not be enough time to hold a referendum and reorganize the government before the national elections scheduled for November 1973. The elections would then take place under the present constitution which bars President Marcos from succeeding himself.

As a countermove, however, the Marcos forces would probably push for a provision in the new constitution that would postpone the 1973 elections and put the parliamentary system into effect at a later date. The anti-Marcos delegates in turn might try to foil this countermove by delaying the convention past November 1973, but the delaying tactic could backfire. The public is already irritated at the slow progress of the delegates. Moreover, President Marcos has demonstrated that he controls enough votes in the convention to get what he wants, and if Macapagal's delaying tactics appear likely to succeed, then Marcos will doubtless instigate the ouster of Macapagal from the presidency. [redacted]

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NOTES

WEST GERMANY: The massive balance-of-payments surplus of \$2 billion in June, up from \$125 million in May, reflects heavy capital inflows related to the sterling crisis in June. Even the short-term capital account was in surplus, for the first time this year. The long-term capital inflows consisted primarily of securities transactions that were not then subject to capital controls. Further substantial inflows occurred in July. The government now seems determined to prevent further large-scale flows even if it has to impose more restrictive controls than those of late June.

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CEYLON: Following his return from Eastern Europe and the USSR, Minister of Industries Subasinghe disclosed that he had negotiated aid commitments totaling about \$40 million for 15 industrial projects. The amount appears to be exaggerated, and negotiations are far from complete. Some of the projects may be financed under unused portions of old credits. Colombo possibly did receive assistance from Prague, and also new aid from Moscow. Minister Subasinghe, who is known to be pro-Soviet, may have overstated the size and significance of the new aid in order to compare it favorably with Peking's recent credit of \$52 million. Neither Moscow nor Peking, however, granted any hard currency credits to meet Ceylon's immediate balance-of-payments problems.

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